GERMAN MINISTER: RESCUE PACKAGE FOR ITALY WON'T BE NECESSARY

- 12.10.2018

EurActiv (12 October 2018)

German Finance Minister Olaf Scholz said on Thursday (11 October) he did not expect Italy to need aid to deal with its debt pile. Any intervention by the European Central Bank would require Italy to formally apply for a rescue programme, sources said.

Italy has the second largest debt in the European Union as a proportion of its gross domestic product (GDP) after Greece, which has received three multi-billion-euro bailouts over the past few years. Italys debt exceeds 130% of GDP.

Italys previous centre-left government passed several measures to help the banking sector recover after a deep recession, culminating in the state bailout of the countrys third-largest bank, Monte dei Paschi in 2017.

Scholz told German broadcaster ARD that Europe was well prepared for possible crises.

We have created many oversight bodies to better monitor the banking system, and we have developed resolution mechanisms and funds to respond to crises without the need for government funding, he said.

Every country was responsible for its own economy, he said, adding: If you have a lot of debt, as is the case with Italy, then of course you have to pay much more attention than other countries to how financial markets handle future public debt.

Italy paid its highest borrowing rate in five years in a bond auction on Thursday after the government alarmed investors by tripling the budget deficit target for next year.

Last week, the European Commission sent a letter to the government warning its budget plans were a reason for serious concern as they appeared to deviate significantly from agreed fiscal targets.

EU Commission prepares to reject Italy's budget

The European Commission will take the unprecedented step of rejecting a national budget later this month if the Italian government does not improve its announced deficit figures, EU officials told EURACTIV.

But the Italian government has so far ignored those warnings.

Next week, on Monday, the cabinet will approve the budget, which will then be sent to Brussels and to parliament, Deputy Prime Minister Luigi Di Maio said Thursday on Facebook.

The Italian parliament voted on the same day to push back the goal of a balanced budget from 2020 to beyond 2021, reflecting the governments new fiscal targets issued this month.

The populist government which took office in June has targeted the deficit-to-GDP ratio at 2.4% next year, three times higher than the goal set by the previous centre-left administration. It has set targets of 2.1% in 2020 and 1.8% in 2021.

ECB cannot come to Italys rescue without EU bailout

In previous comments, Di Maio has suggested that the European Central Bank could always come to the rescue in case market speculation on Italys debt spirals out of control.

But sources at the ECB said the bank wont intervene unless the country secures a bailout from the EU. This is because EU rules do not allow the ECB to help a country unless this has already agreed on a rescue programme □ political jargon for a bailout in exchange for belt-tightening and painful economic reforms, an option the Italian government has firmly rejected.

Any attempt to circumvent those rules would damage the ECBs credibility beyond repair and undermine acceptance of the monetary union in creditor countries, such as Germany, the sources said.

Its a test-case to show Europe and its mechanisms work, said one of the sources on the sidelines of the International Monetary Funds annual meetings in the Indonesian resort town of Nusa Dua.

If Italy did secure a bailout, the ECB could then buy its bonds on the market via Outright Monetary Transactions, a so far unused policy tool unveiled in 2012 to quash speculation on a euro break-up.

An ECB spokesman declined to comment.

Bank liquidity could become a flashpoint

The sources warned that Italian banks, with □□□□ billion of domestic government debt on their balance sheet, were the possible flashpoint.

This is because they relied on those government bonds as collateral to secure cash at the ECB, including some €250 billion worth of long-term loans.

Italys debt is rated two notches above junk by three of the four ratings agencies recognised by the ECB, and three notches above that key threshold by the remaining one, DBRS.

Moodys and S&P Global are due to provide an updated opinion on Italys credit rating in the second half of October, with analysts saying that around one downgrade is already priced in.

Ministers press Italy to respect common rules in budgetary spat

Eurozone finance ministers and the European Commission called on the Italian government on Monday (1 October) to respect the EUs fiscal rules, saying the non-compliant budgetary plan announced by the third largest eurozone economy could destabilise the region.

Kaynak/Source: